Delaware Agribusiness Guide to Crop Insurance

Delaware DEPARTMENT of AGRICULTURE

Serving Agriculture and Protecting Consumers

RMA

Produced by the Delaware Department of Agriculture in partnership with the Risk Management Agency

Crop Insurance protects Agribusiness as well as producers

Anyone who extends credit to farmers has a lot at stake in the Crop Insurance program. For them, crop insurance is repayment insurance.

For anyone who sells to farmers, crop helps assure payment capacity. For them, crop insurance represents a more reliable cash flow.

This manual is not meant to answer all your questions about risk management for Delaware's agricultural producers.

It is meant to be a ready reference for understanding crop insurance and the crop insurance process. It starts with a comprehensive outline of **Farm-Risk-Plans.usda.gov,** a website produced by the Risk Management Agency as a means to help producers and influencers understand crop insurance. This website is a search engine for all things having to do with managing not only the down side risks of farming, but also the up side potential.

You will also find a glossary of risk management and crop insurance terminology. This can prove indispensable, as the process can be filled with insurance-specific definitions and easily forgotten acronyms.

There is also a list of crop insurance agents eligible to sell policies in Delaware, some are on the Delmarva peninsula and some are not, so their locations are also indicated.

The best advice anyone can give a producer with questions about crop insurance is to "CALL A CROP INSURANCE AGENT". It doesn't cost to ask.

There is also a crop insurance education information line here in Delaware **(877-673-2767)** that can handle specific questions in a timely manner. As always, you may want to follow-up with visits to these helpful websites: The Delaware Dept. of Agriculture (www.dda.delaware.gov), the Risk Management Agency (www.rma.usda.gov) and Farmers First Services, a Delaware-centric risk management education website (www.farmersfirstservices.com).

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Dear Friends,

I support the Federal crop insurance program. It has had a huge impact on agriculture in Delaware… just look at the numbers.

Ten years ago, in 1999, Delaware had a little under $22 million in crop insurance protection in place. In 2008 we had nearly $105 million worth of coverage.

From 2001 to 2008 the average benefit, in indemnities paid to Delaware farmers, for every dollar of farmer paid premium was $2.23. In addition, twenty percent more crop insurance policies were sold for 2009 crops than last year.

There are several reasons for this: in 2001 the Risk Management Agency increased the level of subsidies for crop insurance policies; the following year a partnership between RMA and DDA launched a risk management education initiative (this newsletter is part of that ongoing effort); and in 2004 Delaware enacted and funded legislation to help farmers pay crop insurance premiums ($2.7 million to date).

But by far, the most important reason why over $32.4 million of Federal crop insurance indemnities have been pumped into the Delaware economy in just the last two years is because Delaware's farmers made smart decisions.

They maintained their level of coverage despite the rise in premium costs because they recognized that the value of the coverage was rising to reflect the rising value of their crops and the increasing volatility in agriculture.

Sincerely,

Ed Kee

Ed Kee
Secretary

Delaware Department of Agriculture
Serving Agriculture and Protecting Consumers

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Farm on-line planning tool

Farm-Risk-Plans.USDA.Gov

USDA's Risk Management Agency (RMA), has an on-line tool that will allow farmers to: log on and fill out a risk management checklist… Identify their strengths, weaknesses, opportunities, and threats… Explore new enterprise options… Do it all with a wealth of risk management information at their fingertips– at a Web site created just for them."

The site features four modules, each of which allows producers to either view the information on screen, or to download it. The four modules are: Risk Management Planning, Better Marketing Planning, New Enterprise Planning, and Farm Planning Library.

This project has consolidated the best available information from leading Land Grant Universities and government agencies.

Unlike many previous risk management efforts, this one focuses not only on how to protect against down side risks, but also on how best to take advantage of up-side opportunities.

A theme, repeated throughout the four modules, is to encourage farmers to download and fill out two exercises that should help them get a novel look at their risk management situation.

The first of these is the Risk Management Checklist, a three page list of questions that is not meant to be complete, but which should certainly stimulate conversation among the family or leadership team of any farm or ranch operation.

The second is a SWOT Analysis. SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. It is a commonly used planning exercise in the business world. This site recognized that even small to medium sized farms are serious businesses. It says, "Why shouldn't farmers and ranchers use the same tools as any other modern business?"

The team that helped pulled this project together included farmers, Extension educators, and risk management education consultants. It even included the head of the National Agricultural Law Center at the University of Arkansas as well as many of the professionals at the Risk Management Agency.

To visit the site go to the RMA site at http://www.rma.usda.gov/ and click on the icon waiting on the home page. Or you can enter the standard beginning and substitute Farm-Risk-Plans.usda.gov.

This is a comprehensive outline of the content available on the Farm-Risk-Plans Website. Some of these articles are included in this manual.

I. Production Risk

- A. Producing Food and Fiber
    1. Extension Service Publications – takes the user to a list of state-by-state extension services
    2. National Sustainable Agriculture Information Service – a direct link to the service's official website
    3. Organic Agriculture – a PDF on the rules and regulations of Organic Ag

B. Crop Insurance, Revenue Coverage, and Livestock Insurance – What's Available
  1. Crop Insurance Policies – a link to the RMA website, detailing the basic policies available to producers
  2. Crop Insurance Fact Sheets for Your State and Region
  3. Livestock Insurance Policies – again takes you to the RMA site
  4. Non-Insured Crop Disaster Assistance Program (NAP) – a PDF from the Farm Services Agency

C. Crop Insurance, Revenue Coverage, and Livestock Insurance – How It Works
  1. Actual Production History (APH) and Insurance Units for Multiple Peril Crop Insurance (MPCI) – a PDF overview of the subject from Iowa State University Extension.
  2. Crop Revenue Insurance – another comprehensive PDF from Iowa St.
  3. Catastrophic Crop Insurance – original link no longer exists
  4. Group Risk Plan and Group Risk Income Protection – PDF
  5 Multiple Peril Crop Insurance – PDF from Iowa St.

D. Crop Insurance, Revenue Coverage, and Livestock Insurance – Where to Get It
  1. Crop Insurance Locator – a tool devised by the RMA to find crop insurance agents selling policies in your state
  2. Crop Insurance Company Locator
  3. Livestock Insurance Company Locator

E. Other Crop Insurance Resources (PDFs concerning the title subjects)
  1. Crop Insurance for Nurseries
  2. Crop Insurance works for Organic Producers
  3. Crop Insurance Options for Vegetable Growers
  4. Getting Acreage Reporting Right
  5. How to File a Crop Insurance Claim
  6. Good Farming Practices Protect Your Investment in Crop Insurance
  7. What to Expect From Your Crop Insurance Agent

F. For More Information
  1. Farm Planning Library – a separate section of the website
  2. NOAA Weather Service – link to the official site

II. Marketing Risk

A. Better Marketing Planning
  1. Marketing Tools for Farm Commodities – PDFs on the each subject
    a. Pre-Harvest Market Planning
      i. Cotton Producers' Use of Alternative Marketing Strategies
      ii. Developing a Marketing Plan (Commodities)
      iii. Grain Marketing in the Biofuels Era
      iv. Optimal Grain Marketing – Balancing Risk and Revenue
      v. Utilizing Federal Crop Insurance – Coverage Alternatives and Pre-Harvest Grain Marketing Strategies
    b. Grain Contracts
      i. Considerations when Using Grain Contracts
      ii. Grain Marketing in the Biofuels Era
    c. Hedging
      i. Grain Marketing in the Biofuels Era
      ii. Grain Price Hedging Basics
    d. Post-Harvest Strategies
      i. Condominium Grain Storage
      ii. Futures and Options – What You Should Know Before You Trade
      iii. Grain Marketing in the Biofuels Era

iv. Grain Price Options Basics
v. Grain Price Options Fence
vi. Grain Storage Alternatives: An Economic Comparison
vii. Options Tools to Reduce Price Risk
viii. Rolling Up a Put Options as Prices Increase
ix. Storage Plus Interest Cost and Marketing Decisions

2. Dairy Marketing Resources
   a. USDA-Agricultural Marketing Service – Dairy Programs (Link to USDA-Dairy Programs website)
   b. Developing a Dairy Marketing Plan (PDF)
   c. Milk Futures, Options, and Basis (PDF)
3. Livestock Marketing Resources
   a. Alternative Meat Marketing – link to National Sustainable
   b. Hedging of Livestock (PDF)
   c. How to Capture High Calf Prices (PDF)
   d. Livestock Options Markets (PDF)
   e. Understanding and Using Feeder and Slaughter Cattle Basis (PDF)
   f. Understanding Commodity Futures and Options for Producers of Livestock and Livestock Products (PDF)
4. Direct Marketing of Farm Produce and Products (All PDFs besides first and last)
   a. Beef: Marketing Alternatives – Link to National Sustainable Agriculture Information Service website
   b. Determining Prices for CSA Share Boxes
   c. Developing a Roadside Farm Market
   d. Direct Marketing as a Value-Added Opportunity for Agriculture
   e. Direct Marketing of Your Production and Products
   f. Fruit and Vegetable Marketing for Small-Scale and Part-Time Growers
   g. Guide to Marketing for Small-Scale Aquaculture Producers
   h. Marketing Strategies for Farmers and Ranchers
   i. Niche Marketing
   j. Pork: Marketing Alternatives – Link to National Sustainable Agriculture Information Service website
5. General Farm Marketing Principles (All PDFs)
   a. Cooperatives
   b. Knowing Your Market – the Most Challenging Part of a Business Plan
   c. SWOT Analysis
   d. Travel the Road to Success with a Marketing Plan
   e. Whole Farm, Profit Objective Pricing
   f. Writing a Commodity Marketing Plan
6. For More Information – Links to other pages within the site

B. Considerations when Using Grain Contracts (PDF)
C. Cooperatives (PDF)
D. Develop a Dairy Marketing Plan (PDF)
E. Developing a Marketing Plan (Commodities) (PDF)
F. Developing a Roadside Farm Market (PDF)
G. Direct Marketing of Your Production and Products (PDF)
H. Fruit and Vegetable Marketing for the Small-Scale and Part-Time Growers (PDF)
I. Grain Hedging Basics (PDF)
J. Hedging of Livestock (PDF)
K. Knowing Your Market – The Most Challenging Part of a Business Plan (PDF)
L. Niche Marketing (PDF)

M. Optimal Grain Marketing – Balancing Risks and Revenue (PDF)
N. USDA-Agricultural Marketing Service-Dairy Programs (PDF)
O. SWOT Analysis (PDF)
P. Whole Farm, Profit Objective Pricing (PDF)

III. Financial Risk (All links are to PDFs, unless other wise noted)

A. Family
1. Bouncing Back When Your Income Drops
2. Credit Cards and College – 10 Tips
3. Cutting Credit Card Costs – Know Your Credit Rights
4. Facts About Credit Scoring – Link to University of Minnesota Extension website

B. Business
1. Borrowing in a Risky Environment
2. Calculating the "Sweet 16" Farm Financial Measures – link to Penn State College of Agricultural Studies website
3. Diagnosing a Farm Profitability Problem
4. Financing Small-Scale and Part-Time Farms
5. How Much Debt Can a Farm Carry?
6. Using Enterprise Budgets to Make Decisions

C. For More Information – link to Small Business Administration homepage

IV. Legal Risk (All links are to PDFs, unless otherwise noted)

A. Establishing or Reorganizing a Farm Business: Business Organization Decisions
1. Agricultural Business Insurance
2. Important Farm Business Terms Defined – Finance
3. Starting, Organizing, and Managing an LLC for Farm Business

B. A Working Farm – Legal Concerns: Renting and Leasing
1. Cash Farm Leasing Form
2. Crop Cash Lease Agreements
3. Crop Share Farm Lease Form
4. Crop Share Lease Agreements
5. Developing Share Lease Agreements for Farmland
6. Flexible-Cash Farm Lease Form
7. Flexible-Cash Lease Agreements
8. Lease Termination and Other Legal Considerations for Lease Contracts
9. Pasture Lease Agreements
10. Pasture Lease Form

C. Contracting Issues
1. An Introduction to Agricultural Production to Agricultural Production and Marketing
2. The Dilemma of Contracting: Risk Management or Risky Business?
3. Production Contracts: An Overview – Link to National Ag Law Center
4. Twelve Basic Rules of Contracting

D. Tax Issues
1. Deferred Taxes
2. Domestic Production Activities Deduction: One of Many Tax Changes Affecting Farm Businesses
3. Income Tax Management for Farmers in 2007
4. Transferring Business Ownerships
5. Self-Employment Tax for Spouses Receiving Farm Program Payments? – Link to Iowa State Extension website on the subject
6. Weather-Related Sales of Livestock

E. Bankruptcy
  1. Chapter 12 Bankruptcy – link to U.S. Courts website on the subject
  2. Deciding if Bankruptcy is an Option for You – link to Virginia Tech Extension website on the subject

F. Environmental Issues
  1. Assessing the Risk of Ground Water Contamination from Poultry Waste Management
  2. Assessing the Risk of Ground Water Contamination from Swine, Dairy and Beef Cattle
  3. Common Feedlot Problems and Options
  4. Farm Dump: Problems and Solutions
  5. Groundwater Quality and Groundwater Pollution
  6. Proper Disposal of Pesticide Water
  7. Reducing the Risk of Groundwater Contamination by Improving Poultry Waste Management
  8. Reducing the Risk of Groundwater Contamination by Improving Swine, Dairy and Beef Cattle Waste Management

G. Succession Planning/Estate Planning
  1. Retirement
     a. Retirement Estimator for Farm Families – link to Perdue University service
     b. Year-End Tax Planning
  2. Sale of the Farm
     a. Tax Considerations When Buying or Selling a Farm – link to Samuel Roberts Noble Foundation
     b. When a Contract Obligor Becomes the Owner of the Contract – Link to Iowa State Extension website on the subject
  3. Transfer of Management/Ownership
     a. Farm Business Transfer Strategies
     b. Preparing to Pass on the Farm to the Kids
     c. Preparing to Transfer the Farm Business
     d. Transferring Business Ownership
     e. Transferring the Farm – Link to University of Minnesota Extension website on the subject
     f. Transferring Livestock & Machinery
     g. Using Partnerships, Corporations, & Limited Liability Companies to Transfer Farm Assets
  4. Estate Planning
     a. Distribution of Estate Assets
     b. Establishing a Will
     c. Estate Planning Principles
     d. Federal Estate Tax
     e. Gift Tax
     f. Income Tax Issues for Estate Planning
     g. Revocable Living Trusts
     h. Steps in Estate Settlement

H. General Legal Topics
  1. Business Arrangements – a glossary
  2. Legal Terms – a glossary

I. Other Resources
  1. IRS Farmer's Tax Guide – link to IRS website
  2. National Agricultural Law Center – Link to homepage

V. Human Risk (All are PDFs)
- A. Personal/Family
  1. Charting Your Course at Mid-Life
  2. Children and Safety on the Farm
  3. Extra Riders on Farm Equipment
- B. Employees
  1. Farm Respiratory Protection
  2. Guarding Against Corn Harvesting Accidents
- C. Pesticides
  1. Pesticide Action Network (PAN) Pesticide Database
  2. Pesticide Storage and Safety
  3. Respiratory Protective Devices for Pesticides
  4. Toxicity of Pesticides
  5. Transporting Pesticides

VI. General Risk (All are PDFs)
- A. Choosing Our Direction – A Primer on Strategic Planning
- B. Developing a Business Plan
- C. Fatal Business Planning Assumptions
- D. Record Keeping as a Form of Risk Management
- E. Starting or Diversifying and Agricultural Business
- F. SWOT Analysis
- G. Top 10 Keys to Building a Profitable Dairy Business
- H. Whole Farm Planning Model

This covers the Risk Management Planning section alone. The Better Marketing Planning section features the same articles and PDFs as the Marketing Risk portion of Risk Management Planning, but it does serve as a more direct link to these publications. New Enterprise Planning combines parts of the Legal and Financial Risk segments of Risk Management Planning with new worksheets and advice to aid a developing business plan. It also contains an enterprise calculator, to easily figure budgets based on worst-case and best-case scenarios. Perhaps the most useful item for the fledgling ag operation is the Making a Plan area of New Enterprise Planning. It includes five PDFs covering crucial ground for the new business. They are: "Agricultural Business Insurance", "Developing a Business Plan", "Risk Management Checklist", "Selecting a Business Structure", and "Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis".

The Farm Planning Library portion of the Farm Risk Plans website is something of a catchall, taking pieces from each previous section and adding some specific articles. It is broken down into four parts: Tax and Legal Resources, Risk Management Resources, Financial Tools, and Calculators. Farm Planning Library is a good place to go for in-depth coverage of the risk management spectrum and hyper-specific material, such as, "The US Food & Drug Administration Guide to Minimize Microbial Food Safety Hazards for Fresh Fruits and Vegetables."

One key component of the website is that most of the material available is available as a PDF, meaning the user can download the article and save it to their hard drive or print it out. That way, the material is easily available, even when Internet access is not. Keeping the articles handy allows for ready reference, which will make decision-making easier.

Risk management terms, explained

You may sometimes wonder "What do these Risk Management terms mean?"

That's why we created this document. It will help you understand what is meant by the various terms or acronyms you come across as they specifically pertain to Risk Management for agricultural producers.

Actual production history (APH). Actual Production History, or APH, is the most common plan of insurance under the Multiple Peril Crop Insurance, or MPCI, umbrella. It is the basis for determining your guarantee under either multi-peril crop insurance or revenue insurance policies. The APH is calculated as a 4- to 10-year simple average of your actual yield on the insured land. If you do not have records of actual yields, a "transitional yield" based on average yields in your county is used.

Actuarial soundness. This is an insurance term that describes a situation where indemnities paid, on average, are equal to total premiums collected.

Agricultural Risk Protection Act of 2000 (ARPA). This law provided $8.2 billion for insurance premium subsidies and $5.2 billion for market loss assistance payments for producers. Among its other effects, ARPA also modified the crop insurance premium subsidy structure, authorized pilot programs for new forms of insurance, expanded insurance fraud detection and enforcement, and dropped the area yield loss trigger in the NAP program.

Adjusted Gross Revenue (AGR) Lite. AGR-Lite is whole farm revenue insurance that covers almost all of the commodities produced on a farm. It is an individualized revenue insurance based on individual producer yields, quality, and marketing history that equals gross income.

Buy-up coverage. This refers to crop insurance coverage that exceeds the CAT (catastrophic) level. Coverage is available up to 75 percent of your expected yield or expected revenue (which is yield times price). In some areas, coverage up to 85 percent is available for some crops. You pay part of the premium, but government premium subsidy rates are now over 50 percent for most levels of coverage.

CAT coverage. CAT is short for "catastrophic," and refers to crop insurance coverage at the lowest, or catastrophic level. CAT coverage is set at the 50/55 level, which means that your yield must fall below 50 percent of your average yield before a loss is paid. These losses are paid at a rate of 55 percent of the highest price election. You must pay an administrative fee to become eligible to receive CAT coverage, but the government pays the entire premium.

Crop Revenue Coverage (CRC). CRC is the most widely available revenue protection policy. This policy guarantees an amount of revenue (based on your actual production history (APH) x commodity price), called the final guarantee.

Crop revenue insurance. Crop revenue insurance pays you indemnities based on gross revenue shortfalls instead of just yield or price shortfalls. Types of crop revenue insurance includes Crop Revenue Coverage (CRC), Revenue Assurance (RA) and Income Protection (IP). These programs are subsidized and reinsured by the USDA's Risk Management Agency.

Crop yield insurance. Also known as Actual Production History (APH) yield, crop yield insurance pays indemnities to producers when yields fall below the producer's insured yield level due to most natural causes. Crop yield insurance is subsidized by the USDA's Risk Management Agency.

Disaster payments. These are direct payments to farmers on an emergency basis when crop yields are abnormally low due to adverse growing conditions. During the 1970s, there was a "standing" disaster payments program, with payments made without declaration of a disaster area. Regular payments ceased after 1981, but since then ad hoc disaster payments have been specially approved by the U.S. Congress on a number of occasions.

Dollar plan of insurance. The dollar plan of insurance lets you select one of several dollar amounts of insurance per acre prior to planting. For vegetable crops, fresh market corn, fresh market tomatoes (Florida only), and peppers are insurable under the dollar plan of insurance.

Enterprise diversification. Diversification is a way to generate income from different crops and/or livestock activities that are not closely related in price, so that low income from some activities would likely be offset by higher income from others.

Fixed Dollar Plan of Insurance. The Fixed Dollar plan of insurance provides protection against declining revenues due to damage that causes a loss of yield and there is no price increase in the market. The pilot Chile Pepper program is based on the Fixed Dollar plan of insurance and is available in Cochise County, Arizona, and in Hidalgo and Luna Counties, New Mexico.

Forward contract. This is an agreement between two parties (such as you and someone who buys your products) that calls for delivery of, and payment for, a specified quality and quantity of a commodity (such as a particular crop) at a specified future date. The price may be agreed upon in advance, or determined by formula at the time of delivery or other point in time.

Forward pricing. This is when you agree on a price or a pricing formula for a commodity that will be delivered at a later date. "Forward pricing" is used broadly here to refer to both hedging with futures or options, and forward contracting.

Futures contract. This is an agreement to buy or sell a commodity of a standardized amount and quality during a specific month in the future, under terms established by the futures exchange, at a price established in the trading pit at the commodity futures exchange.

Futures option contract. This is a contract that gives the holder the right, though not the obligation, to buy or sell a futures contract at a specific price within a specified period of time, regardless of the market price of the futures contract when the option is exercised. Options provide protection against adverse price movements.

Group Risk Income Protection (GRIP). GRIP is based on the experience of the county rather than on individual farms, so APH is not required for this program. A GRIP policy includes coverage against potential loss of revenue resulting from a significant reduction in your county's yield or the commodity price of a specific crop.

Group Risk Plan (GRP). Like GRIP, GRP coverage is based on the experience of the county rather than on individual farms, so APH is not required for this program. GRP protects you in the event that your county's average per-acre yield or payment falls below your trigger yield.

Guarantee. Also called "yield guarantee" or "insurance guarantee", this is a promise of payment. In this context, it means the amount of money you will be paid in the event of a loss, according to the terms of your crop insurance contract.

Hedging. Hedging uses futures or options contracts to reduce the risk of adverse price changes prior to an anticipated cash sale or purchase of a commodity.

Income Protection (IP). IP is a revenue product that, based on your APH, protects you against a loss of income when prices and/or yields fall. While IP is similar to CRC, it does not have the increasing price function of CRC.

Indemnity. This is the compensation, or money you receive for qualifying losses paid under an insurance policy. The indemnity compensates for losses that exceed the deductible, up to the level of the insurance guarantee.

Leverage. Financial leverage refers to the use of borrowed funds to help finance a farm business. Higher levels of debt, relative to net worth, are generally considered riskier. The optimal amount of leverage depends on several factors, including farm profitability, the cost of credit, tolerance for risk, and the degree of uncertainty in income.

Liquidity. Liquidity refers to your ability to generate cash quickly and efficiently in order to meet financial obligations. Liquidity can be enhanced by holding cash, stored commodities, or other assets that can be converted to cash on short notice without incurring a major loss.

Loan deficiency payments (LDPs). These payments protect producers of several major commodities against revenue losses due to low prices.

Marketing contract. This is a contract between you and a processor or handler that establishes a marketing outlet and a price (or a formula for determining the price) for a commodity before harvest or before the commodity is ready to be marketed.

Multiple Peril Crop Insurance (MPCI). MPCI was established in the 1930s to cover yield losses from most natural causes. MPCI operated on a somewhat limited basis up through the early 1980s, when a private/public partnership was established. At that point, insurance availability was greatly expanded and premium subsidies increased in hopes of replacing the disaster payment program. Major reforms legislated in 1994 – introduction of a low-cost CAT (catastrophic) coverage level, increased premium subsidies, and a requirement that participants in other farm programs obtain crop insurance – increased participation to over 200 million acres, covering the majority of acres of major field crops planted in the United States.

Non-Insured Crop Disaster Assistance Program (NAP). Crop insurance is not available for all commodities. NAP provides financial assistance to producers of many of these commodities if they experience a qualifying yield loss.

Premium. The amount of money you pay for risk protection. Option buyers pay a premium to option sellers for an options contract. Similarly, the person who buys an insurance policy pays a premium in order to obtain coverage.

Production contract. An agreement between you and a processor that usually details the production inputs supplied by both you and the processor, the quality and quantity of a particular commodity that is to be delivered, and compensation that you will be paid. In return for giving up control over decision making, you are often compensated with a price premium or lower market risk.

Revenue Assurance (RA). Revenue Assurance (RA) provides coverage to protect you against loss of revenue caused by low prices, low yields, or a combination of both.

Reinsurance. A method of transferring some of an insurer's risk to other parties. In the case of Federal crop insurance, USDA's Risk Management Agency shares the risk of loss with private insurance companies that deliver policies to producers. Private reinsurance also exists. In this case, a private reinsurer assumes responsibility for a share of the risk, in return for a share of the premiums.

Revenue insurance. Revenue insurance, a cousin to MPCI, was introduced after the 1994 reforms and has become the most popular form of insurance in some areas. Whereas crop insurance covers only yield losses, revenue insurance pays when gross revenue (yield times price) falls below a specified level. These programs are subsidized and reinsured by the Risk Management Agency.

Risk. Uncertainty about outcomes that are not equally desirable. Risk is an important aspect of the farming business. The uncertainties of weather, yields, prices, government policies, global markets, and other factors can cause wide swings in farm income. Risk management involves choosing among alternatives that reduce the financial effects of such uncertainties.

Subsidy. Money given by the government to help producers function.

Uncertainty. Lack of sure knowledge or predictability.

Yield. The amount of something, especially a crop, produced by cultivation or labor.

USDA's standing Disaster Programs

SURE

To be eligible for Supplemental Revenue Assistance Payments (SURE) farmers must buy crop insurance coverage on all their insurable crops.

ACRE

Producers who choose to enroll in Average Crop Revenue Election (ACRE) will not be eligible for Counter Cyclical (CC) payments.

How to evaluate Crop-Hail insurance

While hail is one of the natural causes of loss covered under federally subsidized crop insurance policies, private hail insurance is also an important part of the crop insurance landscape. Here is why.

Hail is the one catastrophe that is most likely to totally destroy a part of your crop and leave the rest looking fine. The part hail takes out may well be less than the deductible of your Multiple Peril Crop Insurance policy or it may not lower your yield enough for a revenue insurance policy to kick in.

Crop-Hail insurance can fill that gap.

While MPCI and revenue protection policies protect you against losses severe enough to significantly drop the yield per insured unit, Crop-Hail insurance gives you acre-by-acre protection that can be up to the actual cash value of the crop.

If you buy 65/100 (65 percent of yield and 100 percent of price) or greater for your MPCI, you can, under many policies, delete the hail coverage and replace it with private hail coverage. Many find it more effective to leave MPCI hail coverage in place and get a companion Crop-Hail policy to cover their MPCI deductible.

Crop-Hail is especially important to those with group policies, like GRIP, which leaves individuals exposed to spot losses due to hail. You can also buy additional Crop-Hail coverage during the growing season (prior to damage) to protect added profit potential from bumper crop yields or higher-than-normal crop values.

Even if your frequency of hail damage is low, remember that Crop-Hail coverage is rated for your area. It is an inexpensive way to protect against hail damage.